

MARKETBEAT

Hampton Roads

Office Q3 2017



HAMPTON ROADS OFFICE

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Hampton Roads Employment	772k	768k	▼
Hampton Roads Unemployment	4.6%	4.3%	▼
U.S. Unemployment	4.9%	4.4%	▼

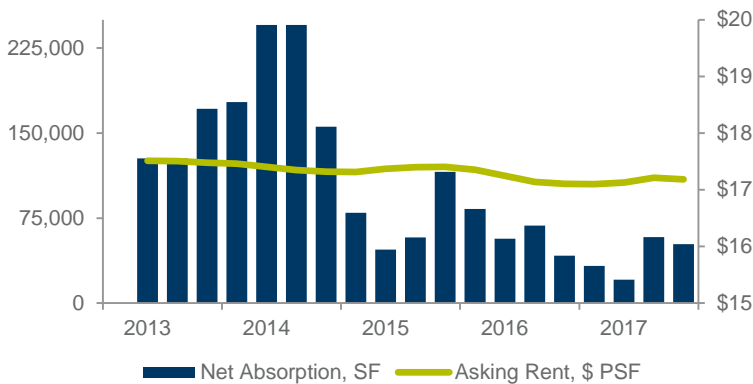
Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	11.3%	10.1%	▼
YTD Net Absorption (sf)	55k	357k	▲
Under Construction (sf)	310k	214k	▼
Average Asking Rent*	\$17.25	\$17.07	▼

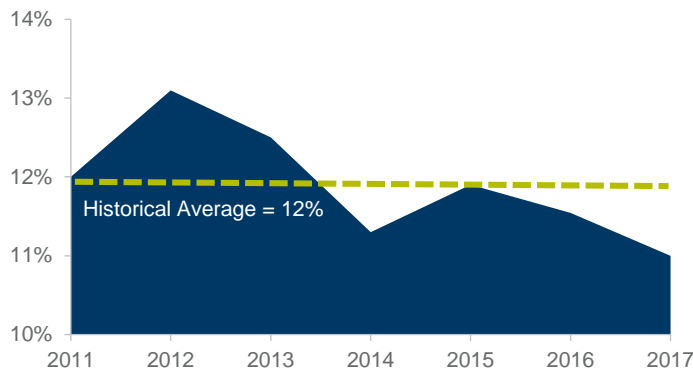
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption vs. Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The 18th Annual State of the Region report, presented by the Center for Economic Analysis and Policy of the Strome College of Business at Old Dominion University, forecasted increased regional economic growth. Each of the major building blocks of the regional economy (defense, the port, tourism) have gained momentum and the housing market continues slow, but steady improvement. The optimism in the local economy contrasts sharply with international political unrest, climate change events, and the overall “age of uncertainty” that is the buzzword for the current end of the decade.

Market Overview

The theme of the first half of the year continued throughout the third quarter – vacancy rates continued to compress marginally; however, leasing activity has been sluggish and rent growth remained flat. Concessions have tightened across most submarkets because of single digit vacancies. The high vacancy on the Peninsula remained a challenge without any significant leasing velocity increases from previous quarters. Oyster Point has stabilized but Hampton did not report any increased demand from the defense sector. The prospect of future demand from the tighter Southside submarkets is unlikely in the near future with the Hampton Roads Bridge Tunnel construction and congestion over the next five years.

Outlook

With economic activity and employment both recovering in the right direction in Hampton Roads, effective rents are expected to finally start rising as developers become more self-assured in the single digit vacancy in most submarkets. If 2018 finally marks the return of confident defense spending, the market has the potential to really turn in favor of landlords; however, Class B owners in non-favored submarkets (the Peninsula) will have to be aggressive and big-block tenants will still have leverage across the board.

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CUSHMAN & WAKEFIELD

THALHIMER

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Chesapeake	4,629,930	13,123	205,495	4.7%	25,993	29,666	85,546	154,151	\$17.18	\$19.83
Gloucester	105,068	2,647	0	2.5%	0	0	0	0	\$10.50	N/A
Hampton	3,235,655	8,251	825,962	25.8%	-14,274	15,662	162,233	0	\$15.19	\$17.23
Harbourview/ Western Branch	1,676,451	0	217,247	13.0%	25,975	23,611	50,793	0	\$18.21	\$19.82
Newport News	6,677,444	14,367	630,080	9.7%	10,065	54,613	70,312	0	\$15.58	\$19.74
Norfolk	9,035,448	54,455	761,235	9.0%	2,042	28,074	86,990	60,000	\$18.48	\$22.92
Portsmouth	1,098,071	26,064	115,083	12.9%	-180	-16,543	15,650	0	\$13.78	\$17.61
Suffolk	935,480	2,500	52,140	5.8%	-300	21,280	6,550	0	\$11.79	N/A
Virginia Beach	10,990,687	9,489	1,012,656	9.6%	27,949	107,433	495,288	0	\$18.76	\$21.56
Williamsburg	1,465,339	0	88,880	6.1%	7,767	49,548	26,407	0	\$18.11	\$21.30
York	560,615	0	50,182	9.0%	46,347	43,275	8,597	0	\$15.81	\$19.00
HAMPTON ROADS TOTALS	40,410,188	130,896	3,958,960	10.1%	131,384	356,619	1,008,366	214,151	\$17.07	\$20.68

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4140 S. Military Highway	12,000	Aramark Refreshment Services	New	Chesapeake
468 Viking Drive	9,409	SimVentions	Expansion	Virginia Beach
667 Kingsborough Square	8,280	Total Care for Women	New	Chesapeake
22 Enterprise Parkway	8,156	Homeland Security Solutions, Inc.	New	Hampton

Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
109 Philip Roth Street	10,208	HRSS Medical LLC / Elliott Bay Capital Trust	\$3,446,900 / \$338	Newport News
759 J. Clyde Morris Boulevard	6,851	Simmco LLC / Southeastern Virginia Properties, LLC	\$954,000 / \$139	Newport News
611 Lynnhaven Parkway	6,431	McCormack Enterprises, LLC / Honeygrove Properties, LLC	\$860,000 / \$134	Virginia Beach

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